

Message Text

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ACTION OPIC-06

INFO OCT-01 NEA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 AGR-05 L-03 EUR-12 FEA-01 JUSE-00 IO-11 /113 W

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R 030948Z FEB 76

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 3967

INFO AMCONSUL KARACHI

AMCONSUL LAHORE

LIMITED OFFICIAL USE ISLAMABAD 1163

E.O. 11652: N/A

TAGS: EFIN, EINV, EGEN, PK

SUBJECT: OPIC FY/76 ANNUAL REPORT

REF: MAYS LETTER TO AMBASSADOR BYROADE

DATE 2 JANUARY 1976

1. I AM SORRY TO BE LATE IN RESPONDING TO YOUR LETTER WHICH INCLUDED A COPY OF THE FY/74 REPORT. UNFORTUNATELY IT REACHED US ONLY JANUARY 29, AND THEREFORE I AM RESPONDING TO IT TELEGRAPHICALLY GIVEN YOUR DEADLINES.

2. WE HAD EARLIER READ WITH INTEREST THE FY/74 ANNUAL REPORT PARTICULARLY SINCE IT FEATURED AN ARTICLE ON PAKISTAN. WE VERY MUCH AGREE WITH YOU THAT THE OPIC ANNUAL REPORT IS AN EXCELLENT VEHICLE FOR PUBLICIZING IN THE US, OPIC'S PROGRAMS AND INVESTMENT OPPORTUNITIES IN DEVELOPING COUNTRIES WHICH ACTIVELY ENCOURAGE FOREIGN INVESTMENT.

3. WE HAVE, HOWEVER, RESERVATIONS ABOUT INCLUDING
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PAKISTAN AMONG THE LIST OF COUNTRIES TO BE HIGHLIGHTED

IN THE FY/76 REPORT. OUR DEALINGS WITH BOTH THE GOVERNMENT OF PAKISTAN AND FOREIGN INVESTORS OPERATING IN PAKISTAN INDICATE THAT THE GOVERNMENT HERE IS DEEPLY AMBIVALENT ABOUT THE ROLE IT EXPECTS FOREIGN INVESTMENT TO PLAY IN PAKISTAN'S DEVELOPMENT PLANS. THERE IS OFTEN A GREAT GAP BETWEEN GOVERNMENT RHETORIC AND GOVERNMENT TREATMENT OF INVESTORS

4. EARLIER REPORTING FROM ISLAMABAD HAS DESCRIBED THE GOP ATTITUDE (SEE ESPECIALLY 75 ISLAMABAD 7060). TO RECAPITULATE THE KEY POINTS, PAKISTAN PLANS TO HAVE PUBLIC SECTOR AGENCIES CARRY OUT MOST OF PAKISTAN'S LARGE-SCALE INDUSTRIAL DEVELOPMENT EFFORTS. GOP STATEMENTS RECOGNIZE THAT THE PRIVATE SECTOR CONTINUES TO HAVE AN "IMPORTANT ROLE" TO PLAY, BUT THIS ROLE IS PREDOMINANTLY CONFINED TO RELATIVELY SMALL UNDERTAKINGS. GOP SPOKESMEN, INCLUDING MOST RECENTLY THE PRIME MINISTER AND THE MINISTER OF STATE FOR INDUSTRIES, PERIODICALLY ASSERT THAT THE GOP "WELCOMES" FOREIGN INVESTMENT. HOWEVER, THE GOP MAKES LITTLE EFFORT BEYOND GENERALIZED STATEMENTS TO ATTRACT SUCH INVESTMENT. IT EXPECTS FOREIGN INVESTORS TO TAKE THE INITIATIVE, AND TO PROVE, USUALLY TO A RATHER SKEPTICAL GOP BUREAUCRACY, THAT THEY HAVE SOMETHING SPECIAL TO OFFER PAKISTAN, SUCH AS EXPERTISE, TECHNOLOGY, SUBSTANTIAL FOREIGN EXCHANGE OR ENTRANCE INTO A NEW EXPORT MARKET. THE GOP SEEKS TO CONTROL FOREIGN INVESTORS' OPERATIONS CLOSELY, AND IS EXTRA-ORDINARILY SENSITIVE TO ANY SUGGESTION THAT A COMPANY'S PROFIT LEVELS OR OTHER BEHAVIOR MIGHT IN ANY WAY BE "EXPLOITING" PAKISTAN. GOVERNMENT PRICE CONTROLS, OFTEN RESULTING IN EFFECTIVELY LIMITING PROFIT LEVELS, ARE THE PRINCIPAL SOURCE OF COMPLAINTS OF INVESTORS AND THERE IS NO EVIDENCE THESE WILL BECOME LESS PREVALENT. DEALINGS WITH THE GOVERNMENT, FOREIGN INVESTORS FIND, ARE FREQUENT AND OFTEN FRUSTRATING.

5. MANY OF THE LARGER FOREIGN INVESTORS - MOSTLY BRITISH OR AMERICAN - TELL US THAT THEIR PROFIT LEVELS ARE HELD DOWN SO LOW THAT THEY WOULD NOT HAVE ENTERED LIMITED OFFICIAL USE

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THE PAKISTAN MARKET HAD THEY KNOWN WHAT THE RESULTS WOULD BE. SOME SAY THEY WOULD LIKE TO DISINVEST BUT BELIEVE THAT WERE THEY TO TRY TO DO SO, THEY WOULD FIND FEW BUYERS AND EXPERIENCE GREAT DIFFICULTY IN REPATRIATING THEIR CAPITAL. WHILE SUCH ASSERTIONS FROM PRIVATE BUSINESSMEN ARE TO SOME DEGREE PROBABLY SELF-SERVING, IT IS CLEAR TO US THAT PAKISTAN IS A DIFFICULT ENVIRONMENT FOR THE FOREIGN INVESTOR.

6. AS FOR NEW FOREIGN INVESTMENT, THERE HAS BEEN LITTLE HERE OVER THE LAST SEVERAL YEARS. A FEW EXISTING FIRMS ARE FINANCING EXPANSIONS OUT OF RETAINED EARNINGS. SOME OPEC COUNTRIES HAVE AGREED TO UNDERTAKE JOINT VENTURE PROJECTS WITH THE GOP IN PAKISTAN, BUT THEIR MOTIVATIONS INVOLVE A LARGE POLITICAL ELEMENT. OTHER INVESTMENTS INVOLVING ANY FRESH CONTRIBUTION OF FOREIGN EXCHANGE ARE RARE. THE ONLY PROSPECTIVE SIGNIFICANT ONE FROM THE US, THE AGRICO JOINT VENTURE IN A FERTILIZER PLANT, WAS AGREED TO BY AGRICO WITH EXTENSIVE AID AND IBRD PARTICIPATION AND A GUARANTEE OF A 20 PERCENT RETURN TO AGRICO IN THE EARLY YEARS. EVEN SO ALL ARRANGEMENTS FOR THIS PROJECT ARE NOT COMPLETED.

7. A FEW STATISTICS MAY ROUND OUT THIS PICTURE. GOVERNMENT FIGURES FOR PRIVATE INVESTMENT IN FY/75-76 SHOW EXPECTED PRIVATE MANUFACTURING INVESTMENT, ADJUSTED FOR INFLATION, AT 70 PERCENT BELOW THE LEVEL OF FY/69-70. WHILE WE DRAW SOME ENCOURAGEMENT FROM THE FACT THAT DOMESTIC PRIVATE INVESTMENT SEEMS TO BE SHOWING SOME INCREASE IN REAL TERMS OVER THE LOW LEVELS OF THE EARLY SEVENTIES, BOTH DOMESTIC AND FOREIGN PRIVATE INVESTORS ARE CLEARLY RELUCTANT TO COMMIT FUNDS TO LARGE-SCALE OPERATIONS IN PAKISTAN UNDER PRESENT CIRCUMSTANCES. RECENTLY THE VISITING SECRETARY GENERAL OF THE INTERNATIONAL CHAMBER OF COMMERCE AND INDUSTRY, C.H. WINQUIST, COMMENTED THAT IT WAS ESSENTIALLY THE INVESTMENT CLIMATE WITHIN THE COUNTRY THAT HAD TO BE CONGENIAL TO PROVIDE ATTRACTION FOR FOREIGN INVESTMENTS. NO EFFORTS BY OUTSIDE ORGANIZATIONS, HE SAID, COULD COMPENSATE FOR THIS LACK. WE WOULD AGREE.

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8. OUR CONCERN HERE IS THAT ANY FEATURING OF PAKISTAN (AND PARTICULARLY PAKISTAN GOVERNMENT STATEMENTS) WOULD MISREPRESENT THE REAL SITUATION AND LEAD TO EXPECTATIONS ON THE PART OF AMERICAN INVESTORS WHICH MIGHT THEN PROVE UNFOUNDED. IN VIEW OF THIS, WE RECOMMEND THAT YOU DEFER PLANS, FOR AT LEAST FY/76, TO INCLUDE PAKISTAN IN YOUR LIST OF HIGHLIGHTED COUNTRIES. WE WILL OF COURSE CONTINUE TO REPORT ON THE CLIMATE FOR INVESTMENT. IF THE MOST RECENT SERIES OF FAVORABLE GOVERNMENT STATEMENTS DO IN FACT RESULT IN AN IMPROVED INVESTMENT CLIMATE, INCLUDING BETTER TREATMENT OF EXISTING INVESTORS, THAT WOULD SEEM TO US TO BE A MORE FAVORABLE TIME TO HIGHLIGHT THE PAKISTAN MARKET.

BYROADE

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